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SECRETARY'S MORNING SUMMARY FOR JUNE 15, 1989

1. CHINA: ACCUSATION OVER FANG LIZHI

BEIJING ESCALATED THE CONFRONTATION WITH THE UNITED STATES OVER FANG LIZHI YESTERDAY WHEN IT PUBLISHED A PEOPLE'S DAILY "COMMENTATOR ARTICLE"--THE FIRST USE OF THIS AUTHORITATIVE MEDIA VEHICLE IN THE CURRENT CONTROVERSY. THE TITLE, "CHINA'S INTERNAL AFFAIRS BROOK NO INTERFERENCE," HAD BEEN USED SPARINGLY TO SIGNAL IMPORTANT CONFLICTS OF INTEREST BETWEEN THE UNITED STATES AND CHINA OVER TAIWAN. THE ARTICLE STATES THAT THE "SO-CALLED 'PROTECTION'" OFFERED TO FANG AND HIS WIFE IS A VIOLATION OF CHINA'S SOVEREIGNTY AND DOES NOT CONFORM TO INTERNATIONAL LAW.

BUT THE ARTICLE TAKES CARE TO LIMIT BLAME TO "CERTAIN US PERSONAGES," "A HANDFUL OF PEOPLE IN THE UNITED STATES," "SOME US MEDIA, PARTICULARLY THE VOICE OF AMERICA," AND THE "US EMBASSY IN CHINA." THE ARTICLE MAKES NO DEMANDS OR THREATS, EXPRESSING "HOPE" THAT THE UNITED STATES WILL TAKE THE OVERALL SITUATION AND LONG-TERM INTERESTS INTO ACCOUNT, "STOP INTERFERING" IN CHINA'S INTERNAL AFFAIRS, AND AVOID DOING ANYTHING TO HARM RELATIONS.

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2. PRC/HONG KONG: LASTING REPERCUSSIONS

A RESTIVENESS BORDERING ON REBELLION AMONG PRC PERSONNEL IN HONG KONG, AND A POSSIBLE PURGE IN PRC-CONTROLLED

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INSTITUTIONS AND COMPANIES, COULD SEVERELY AFFECT BEIJING'S ABILITY TO GAUGE PUBLIC SENTIMENT AND RESPOND CONSTRUCTIVELY TO LOCAL OBJECTIONS. BEIJING'S CHARACTERIZATION OF CIVIL UNREST AS COUNTERREVOLUTION HAS ALARMED HONG KONG RESIDENTS, SOME OF WHOM ARE NOW URGING AN ELEMENT OF LOCAL CONTROL OVER THE USE OF PLA TROOPS TO MAINTAIN ORDER.

THE CONFIDENCE OF THE ALREADY NERVOUS BUSINESS COMMUNITY HAS BEEN SHAKEN BY EVENTS ON THE MAINLAND,

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WHITHER THE BASIC LAW?

HUGE DEMONSTRATIONS IN HONG KONG AGAINST MARTIAL LAW
UNDERSCORED DEFICIENCIES IN THE UK-PRC-NEGOTIATED DRAFT
BASIC LAW THAT WILL GOVERN THE COLONY AFTER 1997. LOCALS
ARE WORRIED THAT BEIJING COULD IN THE FUTURE LIMIT CIVIL
RIGHTS IN HONG KONG BY DECLARING MARTIAL LAW OR A STATE
OF EMERGENCY. THE CURRENT ROUND OF NEGOTIATIONS HAS BEEN
CANCELED, IN PART BECAUSE HONG KONG MEMBERS OF THE DRAFT
BASIC LAW COMMISSION HAVE EITHER RESIGNED OR REFUSED TO
TALK TO THE CURRENT PRC LEADERSHIP.

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HONG KONG ON THE FAULT LINE

HONG KONG'S ROLE AS "REAR BASE" OF THE DEMOCRACY MOVEMENT
COULD PROVOKE A STRONG PRC RESPONSE. HONG KONG MEDIA,
INCLUDING THE PRC-ALIGNED PRESS, AND LOCAL ORGANIZERS HAVE
HELPED SPREAD FACTS AND RUMORS ABOUT DEVELOPMENTS IN
BEIJING, RAISED FUNDS, AND PROVIDED ORGANIZATIONAL

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ECONOMIC OUTLOOK

REFLECTING THE LOSS OF CONFIDENCE IN BEIJING'S ULTIMATE INTENTIONS, THE HONG KONG STOCK MARKET FELL BY ONE-THIRD DURING THE UNCERTAIN TIME THAT ENDED WITH THE BEIJING MASSACRE. THE ECLIPSE OF THE RELATIVE LIBERALS IN CHINA HAS CALLED INTO QUESTION THE ASSUMPTIONS OF THE CONTINUED OUTWARD ORIENTATION OF THE PRC'S SOUTHERN PROVINCES, ON WHICH HONG KONG'S DEVELOPMENT STRATEGY IS BASED.

STEADY ECONOMIC INTEGRATION WITH THE MAINLAND FINANCED BY LONG-TERM HONG KONG CAPITAL, SYMBOLIZED BY THE RISING PERCENTAGE [NOW 61 PERCENT] IN HONG KONG'S TOTAL EXPORTS OF RE-EXPORTS TO AND FROM THE PRC, NOW SEEMS A LESS VIABLE OPTION.

RELIANCE ON HONG KONG'S INCREASINGLY COSTLY LABOR AND DWINDLING SUPPLY OF HIGHLY TRAINED PERSONNEL IS UNLIKELY

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TO PROVE A SUCCESSFUL ECONOMIC STRATEGY. A SHIFT OF OPERATIONS TO OTHER LOW-WAGE ASIAN COUNTRIES IS POSSIBLE, THOUGH IT WOULD PRESUMABLY TAKE TIME TO REPLACE THE SOME THREE MILLION CHINESE WORKERS IN GUANGDONG NOW EMPLOYED BY MORE THAN 60,000 HONG KONG COMPANIES. [SECRET/NOFORN/NOCONTRACT/ORCON/EXDIS]

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